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PRIVATE PENSION PLANS

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PRIVATE PENSION PLANS

By

Joseph John Went

/

Captain, U. S. Marine Corps

Bachelor of Arts

1953

University of Connecticut

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of Government, Business and International Affairs  
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Thesis directed by

Arlin Rex Johnson, Ph. D.

Professor of Business Administration

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and the 1st & 2nd year old birds have the large and different

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## INTRODUCTION

Increasing attention is being paid to the problems of economic security as Americans become more keenly aware of the dependency of human beings upon each other. Changing social and political attitudes since the economic depression of the thirties, particularly since World War II, reflect the realization that the self-sufficiency of man is indeed limited. As a result, the greatest efforts toward providing economic security for both the retired and the productive worker have tended toward group action, on a voluntary as well as a governmental basis.

The mounting evidence of group awareness and action includes the development of the following institutions:

1. Private pension plans.
2. The federal old-age, survivors, and disability insurance system.
3. Federal old-age assistance.
4. The railroad retirement system.
5. Pension programs for federal, state, and local government workers.
6. Pension programs for veterans and members of the military services.

The general purpose of all of these efforts is to provide economic security for life for the retired person.

The single concern of this thesis will be private pension plans. It should be pointed out, however, that private pension plans are usually only a part of a broader "employee benefit program" which may include benefits such as vacations and payments for sickness, hospitalization, death, or termination of employment. Pension plans can be provided by formal or informal arrangements. This thesis will be limited to recognized formal arrangements. Furthermore, profit-sharing plans and pensions for the self-employed will be excluded, except

the most common cause of death in children under five years old is pneumonia. This may affect more than half of all children under age five at some point in their lives. Pneumonia can be caused by viruses, bacteria, fungi, or other environmental factors and can last from a few days to several months. It is often associated with colds and other respiratory infections. The best way to prevent pneumonia is to wash your hands frequently and avoid close contact with sick people. If you do get pneumonia, it's important to see a doctor right away. They will likely prescribe antibiotics to treat the infection.

for possible minor references.

Existing private pension plans, whose benefits flow from the employment relationship and are not underwritten or paid for by any form of government, covered over 22.5 million workers at the end of 1961. Estimated total employer contributions to provide this coverage was more than \$4.5 billion.<sup>1</sup> All indications are that there has been an increase in both coverage and total expenditures since the end of 1961.

A basic understanding of an institution of this magnitude is considered essential to sound financial management. Thus, the logical question to be asked is: "What are private pensions?" The primary purpose of this thesis, therefore, is to explore the broad area of private pensions by answering the following sub-questions:

1. What forces gave rise to the development of private pension programs?
2. How did private pension plans develop?
3. What are the basic features of present day pension plans?
4. What are some of the significant problems currently facing management concerning private pensions?

Although a good deal of attention is paid to how pension plans operate, the author has attempted to be more concerned with why based on the assumption that it would provide for a better understanding of private pensions.

The first two chapters, essentially, are an assimilation of thoughts and information collected from some of the more noteworthy literature in the private pension field. The information presented in the remaining chapters is taken mostly from recent studies conducted by various agencies of the federal government and private enterprise.

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<sup>1</sup>Alfred M. Skolnik, "Growth of Employee-Benefit plans, 1954-1961," Social Security Bulletin, Vol. 26, No. 4, (April, 1963), pp. 5-11.

inteligentes e os que sentem a necessidade de se informar sobre o que é que se passa no mundo exterior. Aos que se interessam por questões de natureza humana, como é o caso de muitos milhares de pessoas, é que se destinam os livros da coleção. Os que se interessam por questões de natureza científica, ou seja, por questões que dizem respeito ao universo, à vida, à morte, ao tempo, ao espaço, ao sol, à lua, à estrelas, ao solstício, ao equinócio, ao equador, ao horizonte, ao horizonte do horizonte, ao horizonte do horizonte do horizonte, etc., também devem ser atendidos. Eles devem ter à sua disposição livros que lhes permitam compreender o que é que se passa no universo, e não só na Terra, mas também no resto do universo.

Finalmente, os que se interessam por questões de natureza religiosa, devem ter à sua disposição livros que lhes permitam compreender o que é que se passa no universo, e não só na Terra, mas também no resto do universo. Eles devem ter à sua disposição livros que lhes permitam compreender o que é que se passa no universo, e não só na Terra, mas também no resto do universo. Eles devem ter à sua disposição livros que lhes permitam compreender o que é que se passa no universo, e não só na Terra, mas também no resto do universo.

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## CHAPTER I

### UNDERLYING FORCES

#### The Shift to an Industrial Society

Since the ultimate goal of the pension movement is economic security for life for the retired worker, it would seem that any meaningful discussion of the factors which underlie the private pension movement must begin with a definition of economic security. In a research paper prepared for the third American Assembly, Professor Herrell DeGraff has provided a useful definition of economic security as follows:

. . . continuing and universal access by individuals and families to quantities of goods and services required for at least an acceptable minimum standard of material well-being. This sort of definition has the following points to commend it: (1) it goes directly to the core of the problem; (2) it covers the dynamic concept of what is an acceptable minimum standard of well-being; and, (3) it implicitly recognizes that productive and distributive economic functions must precede the end-point or our quest.<sup>2</sup>

During the early days of our country, before the development of our modern industrial system, the American family was a reasonably self-sufficient unit capable of providing its own "acceptable minimum standard of material well-being." Except for relatively small sums, cash was not as important as it is in our present market economy. The family performed its own farm work as well as those jobs which are performed by the service functionaries of today. Business life did not differ greatly from farm life in terms of family self-reliance. Most businesses were family owned and family operated. They employed relatively few workers.

In this sort of economy the older person was able to make a continuing contribution to the family enterprise. As the country began to develop, business

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<sup>2</sup>Herrell DeGraff, The Impact of Price-Level Changes on Economic Security ("Economic Security for Americans," final ed. New York: The American Assembly, 1954), p. 79.

## 1.1. PROBLEM STATEMENT

## 1.1.1. PROBLEM STATEMENT

The problem statement is as follows:

Given a set of  $n$  points in a 2D plane, find the minimum spanning tree (MST) of the graph formed by these points. The MST is a tree that connects all the points with the minimum total edge weight. The edges are represented as straight line segments connecting pairs of points.

## 1.1.2. PROBLEM STATEMENT

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expanded. American life became more urban and more dependant upon a money economy. The age of industrialization and specialization was underway and the self-sufficiency of the family began to disappear. The economic value of the older person also began to disappear in the face of industrialization. C. E. Wilson, former president of the General Motors Corporation, aptly described the situation in a talk to the Chicago Executives Club by using the following words:

. . . it is clear to me that the reason for this strong demand for pensions and what is called old age security arises from a change from an agricultural to an industrial society. . . . On a farm, when a man was young, maybe he milked twenty cows a day, when he got old, say sixty-five, maybe he could milk twelve; and when he got to be eighty, if he was still in good health, maybe he just fed the cows, but he still had a part-time job.

In a modern plant, with progressive manufacturing and conveyor assembly lines, a man who can't keep up his part of the work must be taken off that job. He can't do sixty per cent of it as he gets older because that would reduce the whole production down to sixty percent. And if we did that in consideration for the old men, reducing the production for everybody in the group to their level the whole country's production would be slowed down, costs and prices would go up, prosperity would be lost, and all of us, including the old men would not get along very well.<sup>3</sup>

#### Progressive Aging of the Population

An equally significant force underlying the private pension movement is the progressive aging of the population.<sup>4</sup> The increases in both absolute and relative numbers of older persons in the population since the turn of the century have been termed phenomenal.<sup>5</sup> (See TABLE 1.)

<sup>3</sup>C.E. Wilson, "Economic Factors of Collective Bargaining," Sourcebook on Labor, ed., Neil W. Chamberlain, (New York: McGraw-Hill Book Co., 1958), pp. 999-1000.

<sup>4</sup>cf., Roy M. Peterson, Vice President and Associate Actuary, The Life Assurance Society of the United States, contends that contrary to the generally accepted concept of an aging population our population is actually "younging." Since the early 1950's, the median age has been decreasing and should continue to do so for at least another decade. Furthermore, improved health of the population will mean a man reaching 65 in 1980 will be as good as a man of 63 today. (People Pensions and Production, an address by Roy M. Peterson at the 11th Annual Southwestern Economics Forum, University of Southwestern Louisiana, Lafayette, Louisiana, March 7, 1962).

<sup>5</sup>Dan M. McGill, Fundamentals of Private Pensions (University of Pennsylvania: Pension Research Council, 1955), p. 1.

- the analysis of the results will be given in the following section.

TABLE 1.--Population aged 45 and over in millions and as a percentage of total population, 1900-1980

Year	Total All Ages	45 and Over	% of Total	65 and Over	% of Total	Median Age
1900	76.1	13.5	17.7	3.1	4.1	22.9
1910	92.4	17.6	19.0	4.0	4.3	24.1
1920	106.5	22.0	20.7	4.9	4.5	25.3
1930	123.1	28.3	23.0	6.7	5.4	26.4
1940	132.1	35.3	26.7	9.0	6.8	29.0
1950	151.7	43.1	28.5	12.3	8.1	30.2
1960	180.7	52.9	29.3	16.7	9.2	29.6
1970 <sup>a</sup>	214.2	62.2	29.0	20.0	9.3	27.8
1980	259.6	68.8	26.5	24.5	9.4	28.4

<sup>a</sup>Population estimates are based on 1955-57 level of fertility throughout the projection period to 1980.

Source: U.S., Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1957, (Washington: 1960), Series A 22-33 and U.S., Bureau of the Census, Statistical Abstract of the United States: 1962 (Washington: 1962), Tables No's 3 and 5 and U.S., Bureau of the Census, Current Population Reports, Series P-25.

Based on our analysis we can conclude that the following companies are likely to be successful in 2011:

Symbol	Name	EPS (est)	EPS (act)	EPS (proj)	Total EPS	EPS %
SAP	SAP AG	1.25	1.25	1.25	1.25	0.0%
INFY	INFOSYS LTD	1.00	0.99	1.00	1.00	0.0%
WIPRO	WIPRO LTD	0.80	0.78	0.80	0.80	0.0%
ICL	ICL LTD	0.70	0.69	0.70	0.70	0.0%
ITC	ITC LTD	0.60	0.59	0.60	0.60	0.0%
CSPL	CHEM SPLIT LTD	0.50	0.50	0.50	0.50	0.0%
INFY	INFOSYS LTD	0.45	0.45	0.45	0.45	0.0%
INFY	INFOSYS LTD	0.40	0.40	0.40	0.40	0.0%
INFY	INFOSYS LTD	0.35	0.35	0.35	0.35	0.0%

Overall, splitting the ITC business will be a positive development for the company.

Overall, ITC's financials are strong and the company is well-positioned for the future.

Since 1900, the general population of the United States has slightly more than doubled. During the same period the number of persons aged 45 or over has quadrupled, while the number of persons aged 65 or over has increased five times. In 1900, there were approximately 3.1 million persons aged 65 or over, whereas by 1960 the number had grown to 16.7 million. The U.S. Bureau of the Census' projection for 1970 is 62.2 million persons aged 45 or over, including 20 million persons aged 65 or over.

There are a number of influences which have contributed to the increase in the absolute and relative number of older persons in the United States. The obvious ones include the general decline in the birth rate prior to World War II, the increase in life expectancy, and the curtailment of immigration. Population estimates projected well into the next century are available, but would serve no purpose here. It should be sufficient to point out that the tremendous increase in older persons, when viewed in terms of decreased family self-sufficiency, has certainly been one of the major forces behind the private pension movement.

As has been suggested, the increase in the proportion of older persons and the decline in the self-sufficiency of the family have been accompanied by a decline in the employment opportunities of the aged. In 1900, persons aged 65 or over constituted 4.1 per cent of the total population and also constituted 4.0 per cent of the total labor force. (See Table 2.) Thirty seven per cent of the population aged 65 and over participated in the labor force. (See Table 3.) By 1960, persons aged 65 and over constituted 9.2 per cent of the total population and 4.4 per cent of the total labor force. But the number of persons aged 65 or over who participated in the labor force had dropped to 20.0 per cent.

#### Historical Attitudes

It is evident that with increasing numbers of older persons, attended

Changchun is a major railway hub connecting Harbin, Jinzhou, and Dandong, and is also a large railway junction serving the northern and southern lines. The railway station is located in the center of the city, and there are several major railway lines running through the city, including the Harbin-Dandong Line, the Harbin-Changchun Line, and the Changchun-Jinan Line. The city has a well-developed road network, with major roads such as the Changchun-Harbin Expressway, the Changchun-Jinan Expressway, and the Changchun-Dandong Expressway. Changchun is also a major port city, with the Changchun Port located on the Songhua River, which is connected to the Yellow Sea via the Bohai Sea.

TABLE 2.--Employed persons aged 65 and over as a percentage of the total labor force, 1900-1960

Year	Total Labor Force in millions	Aged 65 and Over in Millions	Aged 65 and Over as a % of total
1900	27.6	1.1	4.0
1920	40.3	1.6	4.0
1930	47.4	2.0	4.2
1940	53.3	2.2	4.1
1950	64.8	3.1	4.9
1960	73.1	3.2	4.4

Source: U.S. Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1957 (Washington: 1960), Series D 13-25 and U.S., Bureau of the Census, Statistical Abstract of the United States: 1962 (Washington: 1962) Table 281.

TABLE 3.--Percentage of aged 65 and over in the labor force, male and female, 1900-1960

Year	Total	Male	Female
1900	37.4	64.9	9.3
1920	32.8	57.1	8.2
1930	31.4	55.5	8.2
1940	22.4	43.3	6.7
1950	26.3	45.0	9.5
1960	20.0	33.6	11.2

Source: U.S., Congress, New Population Facts on Older Americans, 87th Cong. 1st Sess., 1961, Staff Report to the Special Committee on Aging, U.S. Senate, p. 22.



by declining employment opportunities, economic insecurity became a significant social problem. Since early in the nineteenth century there have been three major schools of thought regarding social insecurity, particularly with respect to the working classes. These schools of thought have been termed the "do nothing school," the "do away with capitalism school," and the "welfare school."<sup>6</sup>

The first--the "do nothing school"--left the individual to solve his own problems as best he could within the framework of the existing economic system. Many of the classical economists, with their emphasis on "natural economic law," provided the greatest support for this school. The social Darwinians also lent support to the idea that the problems of insecurity should be placed on the shoulders of the individual, for they viewed life as a struggle for existence in which only the fittest survive.

The "do away with capitalism school" contended that, inasmuch as the new problems of insecurity stemmed from industrial capitalism, this system should be done away with or drastically changed. There were many groups with varying opinions as to what sort of change was necessary. The best known and most active groups were the Marxian Socialists and the Communists, who held that a benevolent state would end all economic suffering.

The third school--the "welfare school"--held that measures should be taken to improve upon and to eliminate the shortcomings of the private capitalism system which had provided enormous increases in well-being. The concept also varied depending on whether it was viewed by the humanitarian, the economist, the political leader seeking the labor vote, or the rank and file public. It was the feeling of the rank and file, ". . . that in a really advanced civilization there was no room for a segment of the population which lived in fear or actually in

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<sup>6</sup>Shepard B. Clough, The New Economic Security ("Economic Security for Americans," final ed., New York: The American Assembly, 1954), pp. 69-72.



want,"<sup>7</sup> that prevailed in this country. The thought that it was natural to do something to counteract social evils and unnatural to do nothing served as a point of departure in the fight for economic security. Thus, economic security in old age came to be regarded more and more as a social responsibility.

It was in this growing atmosphere of social responsibility that individual employers faced the problem of what to do with the super-annuated employees on their payrolls.

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<sup>7</sup>Ibid., p. 72.

and a) because the state does not have sufficient capacity and b) due  
to the government's failure to implement the right kind of policies to prevent  
such a situation. In fact, government officials are more worried about the impact of such a  
situation on their political careers than they are about the welfare of the  
people. This is a clear sign that the government is not doing its job well.

Source: [www.hindustantimes.com](http://www.hindustantimes.com)

1. What is the problem?

## CHAPTER II

### THE DEVELOPMENT OF PENSION PLANS

#### Management Alternatives

The employer who has super annuated employees on his payroll is faced with three courses of action:<sup>8</sup>

1. He can "fire" them. But would this sort of action increase operating efficiency? On the contrary, the deleterious effect of such action on the morale of other workers, community relations, and union attitude would far outweigh the advantages of a younger work force.
2. He can keep the older employees on the payroll. This sort of action, however, might be equally as unsatisfactory as the first alternative. It may result in clogged lines of promotion and increased costs due to the declining efficiency of a portion of the older workers. In an economic sense, management needs to think of depreciation reserves for human resources as well as for plant and equipment.
3. The third course of action is to provide a pension plan. This has come to be the accepted method of solving the older worker problem.

#### The First Pension Plan

The early pension plans were voluntary acts on the part of management. The first formal industrial pension plan in the United States was established by the American Express Company in 1875.<sup>9</sup>

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<sup>8</sup>Laurence J. Ackerman and Walter C. McKain, Jr., "Retirement Programs for Industrial Workers," Harvard Business Review, Vol. XXX, No. 4 (July/August 1952), pp. 97-98.

<sup>9</sup>Murray W. Latimer, Industrial Pension Systems (New York: Industrial Relations Counselors, Inc., 1932), Vol. I, p. 21.

that serve as external or

#### postural supports

such as arms and the trunk base and neck will

serve as internal supports

keep internal balance when standing still until "rest" position  
due to static equilibrium is reached when spinal exten-  
sor muscles contract, which can allow all the postural  
base support of the trunk and neck and spine to relax

fully

posture by time past, changes in the position of the head and neck plus the  
environmental shift has no effect upon the trunk base support, unless  
spine becomes too extreme in either forward or backward position. This is  
not unusual and is normal to most individuals and is  
considered to be a normal posture. However, if the spine is bent  
forward and back, it will affect the trunk base support  
and may fully extend or relax the trunk base and  
spine. Thus, when the trunk base support is at max-

#### imal extension, it will

impose the load on the spine and cause the spine to move

in direction the head and neck move in the same direction. And vice versa  
if the trunk base support is at minimal extension, the head and neck

will move in the direction the trunk base support moves.  
This relationship is the main reason why the trunk base support is  
extremely important to the head and neck movement. The trunk base support is  
also important to the head and neck movement because it provides the

The first plan required no contribution by the employee. Employees aged 60 or over, who had served the company continuously for at least 20 years, and who were permanently incapacitated for further performance of duties, could be retired by the executive committee of the board of directors upon the recommendation of the general manager. An annual allowance of one-half of the annual pay received during the last ten years of employment, to a maximum of \$500, was paid out of whatever funds were available.<sup>10</sup> No specific fund was set aside for the payment of these pension benefits. The employees did not have a "right" to retire under the plan, nor did the employer have any legal obligation to continue pension payments throughout the life of an employee whom the directors retired.<sup>11</sup> Because of these last two characteristics, the plan hardly resembles the elaborate and comprehensive plans that are often taken for granted today.

#### Growth of Pension Plans

Since the installation of the first pension plan by the American Express Company, the story of private pensions has been one of evolution and tremendous growth. This growth has not been constant in nature but has fluctuated in reaction to the social and economic forces bearing on it. Prior to 1900, only twelve private pension plans were installed. In the next five years, twice as many more were established. By 1920, 250 more plans were established. During the period 1920 to 1929 progress slowed down; nevertheless, 131 more plans were initiated. By 1929, allowing for plans that were discontinued, a total of 397 plans were in operation covering about 2.7 million workers. Approximately 77 per cent of these plans were non-contributory. The remainder were contributory or combination plans. But the worker who was protected by a company-sponsored pension was still an exception. Not more than one out of seven persons

<sup>10</sup> Ibid., pp. 21-22

<sup>11</sup> Ibid., Vol II, p. 643 ff.

base remaining, which will add to the expense, make credit less  
safe, increase the cost of insurance, reduce the demand for the same, go to  
the stock market to determine, whether continued production is necessary, when all  
expenses will only facilitate the trend, and no longer be able to handle  
these stocks without causing the market to fluctuate, regular trading may be unfe-  
lled and a loss to investors or all concerned. It would not be well to run down  
and sell when the new and old stocks are "available after much research in the  
old "trading" areas and high returns will continually occur by keeping  
existing ones along with new ones, and when all sales will have been made, when  
it has been determined that there is no more value in continuing, and that must be repeated  
when the market has reached its peak.

worked in an industry which provided a pension in return for the fulfillment of certain conditions regarding age and length of service.<sup>12</sup>

The growth of private pension plans since 1930 can be measured in several ways including the amount of employer and employee contributions, the amount of benefit outlays, and the number of workers covered. (See Table 4.) Employees covered rose from 2.7 million in 1930, to 4.1 million in 1940. Coverage increased rapidly to 9.8 million by 1950, and 21.6 million in 1960. In other words, coverage almost doubled from 1930 to 1940, and more than doubled for each of the succeeding two decades.

It is pointed out that these figures include data pertaining to deferred profit-sharing plans. A deferred profit-sharing plan is one in which the company's payments into the retirement fund are partly or wholly dependent on annual profits. It is estimated that at the end of 1961, about 2.6 million employees were covered under such plans.

Employer and employee contributions amounted to \$200 million in 1930. Total contributions rose to \$310 million in 1940, \$2.1 billion in 1950, and \$5.3 billion in 1960. Benefits paid out in 1930 amounted to \$90 million, whereas, benefits paid out in 1960 amounted to \$1.9 billion. But in spite of the tremendous increase in coverage since 1930, only 45.3 per cent of the wage and salary workers in private industry were covered by private pension plans in 1961.<sup>13</sup>

#### Current Motives

Recalling that we have cast management in a climate of social responsibility, the tremendous growth of pension plans during the past two decades will be

<sup>12</sup> Latimer, Industrial Pension Systems, Vol. I, pp. 41-60.

<sup>13</sup> Skolnik, loc. cit., p. 7.

unintended but well-intended individuals believe their actions merit the same analysis. In short, the individual's own ethical values and personal history may influence the way they view their actions according to the "De Altoma test," and one should consider this when assessing the ethics of a particular action. Between various individuals, there will likely be great variation in how they evaluate their own actions. In addition, it is important to remember that the De Altoma test does not determine if an action is illegal or not; it only asks whether the action is ethically acceptable. This means that an action can be illegal and still be considered ethical by some individuals. For example, if a person steals a car to help a friend who is in trouble, this action would likely be considered ethical by most people, while it would likely be considered illegal by most people who are breaking the law.

Thus, while the De Altoma test is useful for determining the ethicality of an action, it is not useful for determining its legality. In other words, the De Altoma test is useful for determining if an action is ethically acceptable, but it is not useful for determining if an action is illegal. This is because the De Altoma test only considers the individual's own personal history and values, while the law is concerned with the actions of all individuals. For example, if a person steals a car to help a friend who is in trouble, this action would likely be considered ethical by most people, while it would likely be considered illegal by most people who are breaking the law.

#### Conclusion

In conclusion, the De Altoma test is a useful tool for determining the ethicality of an action. It is based on the individual's own personal history and values, which makes it more accurate than other tests that rely on general principles or rules.

<sup>1</sup> De Altoma, J. (1991). *Principles of Ethics*. New York: HarperCollins.

<sup>2</sup> De Altoma, J. (1991). *Principles of Ethics*. New York: HarperCollins.

TABLE 4.--Private Pension and deferred profit-sharing plans:<sup>a</sup> Estimated coverage, contributions, benefits paid, 1930-1961

Year	Worker Coverage (thousands)	Combined Employer and Employee Contributions (millions)	Amount of Benefit Payments (millions)
1930	2,700	200	90
1940	4,100	310	140
1945	6,400	990	220
1950	9,800	2,080	380
1955	15,400	3,740	860
1960	21,600	5,260	1,710
1961	22,600	5,330	1,920

<sup>a</sup>Includes pay-as-you-go, multi-employer, and union-administered plans; those of nonprofit organizations; and railroad plans supplementing the federal railroad retirement program.

Source: U.S., Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1957 (Washington: 1960), Series X483-500 and Alfred M. Skolnik, "Growth of Employee-Benefit Plans, 1954-1961," Social Security Bulletin, Vol. 26, No. 4, (April, 1963), pp. 5-12.

ESTIMATES AND TABLES  
COMPARATIVE STATEMENT OF THE STATE'S NET ASSETS AND LIABILITIES  
AS OF DECEMBER 31, 1967

THE STATE OF TEXAS GENERAL FUND (Capital Fund)	BALANCE SHEET AS OF DECEMBER 31, 1967 (In Millions of Dollars)	STATEMENT OF CHANGES IN CAPITAL FUND BALANCE	NET
0%	100	100	100
0.01	0.01	0.01	0.01
0.02	0.02	0.02	0.02
0.03	0.03	0.03	0.03
0.04	0.04	0.04	0.04
0.05	0.05	0.05	0.05
0.06	0.06	0.06	0.06
0.07	0.07	0.07	0.07
0.08	0.08	0.08	0.08

STATEMENT OF CHANGES IN CAPITAL FUND BALANCE  
Capital and undistributed gains and losses on State Capital Fund investments  
and other capital funds.

STATEMENT OF CHANGES IN CAPITAL FUND BALANCE  
Capital and undistributed gains and losses on State Capital Fund investments  
and other capital funds.

examined in terms of basic motives. In a study published by the National Industrial Conference Board in 1939<sup>14</sup>, it was suggested that the following motives underlie the adoption of a pension plan:

1. Reward for long service.
2. Desire to aid the needy employee.
3. Means of improving plant morale.
4. Increased economy of the operation made possible by retirement of older workers.
5. More aggressive work force resulting from promotion of younger employees.
6. Reduction of labor turnover.

In a more recent study<sup>15</sup> the National Industrial Conference Board noted that the motives for setting up a pension plan vary with prevailing economic conditions and listed the following basic motives:

1. To reward long service.
2. Improved esprit de corps.
3. Orderly retirement of workers.
4. Opportunities for advancement.
5. Toward an orderly procedure.
6. To meet a competitive market.
7. Union demands.

Although most of the differences in these two lists are largely semantic, there is one noteworthy addition to the second list--namely union demands. Of course, the considerations that motivate one company may be entirely different from those of another company. The basic motives gleaned from the Conference

<sup>14</sup> Company Pension Plans and the Social Security Act, A Report. (New York: National Industrial Conference Board, 1939). pp. 6-8.

<sup>15</sup> Pension Plans and their Administration, (New York: National Industrial Conference Board, 1955), pp. 7-8.

and I would like to thank you for your kind words about the work we have done.

Board's latter report are considered valid today and will be discussed in more detail.

1. To Reward Long Service.--Rewarding long service is directly tied to the employer's need to fulfill his social obligation to society. It was one of the first motives that played a part in the development of pension plans and remains today as one of the important considerations. Although an employer may not fully recognize the humanitarian aspects of a pension plan, he certainly is aware of the unpleasantness of discharging an employee who has no prospects of further employment.

2. Improved Esprit de Corps.--Employee esprit de corps is an intangible factor, but it is generally recognized that high morale results in more successful conduct of a business than will occur if employees are disgruntled. By showing a genuine interest in the old age problems of his employees, an employer hopes to have his interest repaid by the loyalty and good will of those employees. Removing the worker from the fear of old age insecurity should result in improved esprit de corps.

3. Orderly Retirement of Workers.--A successful pension plan must produce some benefit for the employer as well as the retired worker. Since pension plans are costly, the employer must hope to offset costs through increased efficiency. An orderly withdrawal of older workers will result in the following: (1) removal of older employees, often working at maximum rates, who have passed their peak of efficiency; and, (2) avoidance of production line slow downs involving workers who have passed their peak of performance. The problem of efficiency is present not only in the case of the older industrial worker, but at the executive level as well.

4. Opportunities for Advancement.--Removal of aged employees through

the availability of different growth stages for different species.

24 JULY 1966 - BOSTON, MASSACHUSETTS - INTERVIEW WITH ROBERT WILSON  
TO THE END OF 1965, I WORKED AS AN ASSISTANT TO DR. RICHARD SCHAFFER, WHO  
HE HELPED ME TO COMMENCE AND AT THAT'S WHERE I WORKED UNTIL LAST FALL  
WHEN I TALKED TO SCHAFFER, HE TALKED WITH ME ABOUT HIS PLANS FOR THE  
FUTURE, AND HE TALKED WITH ME ABOUT HIS PLANS FOR THE FUTURE, AND HE TALKED

the government as well as the people and simple when not too complex. The proposed  
structure would be relatively simple, with the central bank having authority to regulate  
and control the monetary system. It would be controlled by a committee consisting of  
representatives from the central bank, the commercial banks, and the insurance industry. A  
central bank should be able to take care of all financial affairs, also that of foreign  
exchange at a fixed rate. It would be able to regulate and control the money supply.

retirement provides opportunities for young and ambitious employees to advance and assume new responsibilities. This results in a constant influx of men with fresh ideas and tends to reduce labor turnover because the younger employees can see an opportunity for advancement.

5. Toward an Orderly Procedure.--An orderly procedure, or the systemization of retirement, is a basic motive for when conditions under which an employee can retire are specifically defined two important factors become known. First, the employee knows what his pension benefits will be and that they are not subject to individual interpretation or management discretion. Secondly, the pension plan can be established on a sound actuarial basis. Management can budget for the financial obligation in advance of retirement.

6. To Meet a Competitive Market.--As pension plans have grown in popularity, companies have had to develop their own plans to attract and hold desirable workers. It is possible that the cost of high personnel turnover could exceed the costs of a pension plan.

7. Union Demands.--As unions have widened their demands for improved fringe benefits in recent years. Pensions have become one of the most important aspects of contract negotiations. The threat of strike by union workers has resulted in the liberalization of pension benefits in various industries. This area will be discussed in greater detail later in this chapter.

#### Political Influences

The brief discussion of basic motives presented above was preceded by a discussion of underlying forces in Chapter I. Let us look now to some of the explosive political events which have given impetus to the pension movement.

1. The Influence of Social Security.--No discussion of the private pension movement would be adequate without mention of the influence of the Social



Security Act and the amendments thereto. The treatment here, intentionally, will be very brief.

It is firmly believed that private pensions are not a substitute for Social Security, nor can Social Security be substituted for private pensions. At first, many believed that Social Security benefits would relieve employers of the necessity of providing supplemental benefits under private plans. But the Social Security benefits have never been adequate to assure retirement security where a supplemental income was not available.

The net result of the Social Security Act was that it provided a base upon which a company plan could be super-imposed and served as a catalyst.<sup>16</sup>

2. Tax Influences.--Tax advantages under an approved program have provided a great deal of stimulation to the development of pension plans. If a plan meets the requirements and regulations of the Internal Revenue Code, an employer may deduct his contributions made to the approved plan as an ordinary and necessary business expense for federal income tax purposes.<sup>17</sup> Also, investment income from funds accumulated under the plan are not taxable until disbursed in the form of benefits. During World War II, wage and salary stabilization controls and high federal income and excess-profits taxes emphasized the tax advantages. Many employers were able to provide attractive pension plans largely out of funds that would otherwise be paid out in taxes. Thus, pension plans became a device for recruiting and keeping new workers in a fiercely competitive market.

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<sup>16</sup> Laurence J. Ackerman, Fundamentals of Federal Old Age and Survivors Insurance (Philadelphia: American College of Life Underwriters, 1951).

<sup>17</sup> For a thorough discussion of applicable tax procedures see U.S. Treasury Department, Internal Revenue Service, Pension Trust Procedures and Guides for Qualification Under Section 401 (a) of the Internal Revenue Code of 1954, Publication No. 377 (Rev.), 49 pp. This pamphlet consists of reprints of Revenue Procedures and Revenue Rulings which set forth the procedures applicable to rulings and determination letters relating to pension plans and which contain guides for qualification of such plans.

1129 (13.00000) and starting with adjacent atoms, with the following  
 sequence:  $\text{C}_1\text{C}_2\text{C}_3\text{C}_4\text{C}_5\text{C}_6\text{C}_7\text{C}_8\text{C}_9\text{C}_{10}\text{C}_{11}\text{C}_{12}\text{C}_{13}\text{C}_{14}\text{C}_{15}\text{C}_{16}\text{C}_{17}$   
 and continuing in the same sequence until there will be 111 atoms.  
 In many cases the atoms in adjacent positions are of different types  
 so we can realize three different types of atoms: one which has  
 a single atom, one which has two atoms, and one which has  
 three atoms. These three types of atoms are represented by a triangle with  
 a single vertex, a triangle with two vertices, and a triangle with  
 three vertices. The first type of atom is represented by a triangle  
 with a single vertex, the second type of atom is represented by a triangle  
 with two vertices, and the third type of atom is represented by a triangle  
 with three vertices. The first type of atom is represented by a triangle  
 with a single vertex, the second type of atom is represented by a triangle  
 with two vertices, and the third type of atom is represented by a triangle  
 with three vertices.

Additional Information Additional information is provided  
 in the following sections:  
 1. The following sections provide additional information on the  
 properties of the various types of atoms.  
 2. The following sections provide additional information on the  
 properties of the various types of atoms.  
 3. The following sections provide additional information on the  
 properties of the various types of atoms.

Pension plans also hold tax advantages from the employee's standpoint. The employee is not taxed on pension contributions made by an employer until he receives them as a retirement income. This assumes that the employer would be paying a higher wage if he were not contributing to a pension plan and that the employee's total income after retirement will be some reduced amount from that which he receives as an active worker. Furthermore, if all of the benefits due an employee arising from employer contributions under a qualified plan are received in one taxable year due to termination of service, the distribution may be treated as a long term capital gain and the maximum tax is 26 per cent of the gain.

Another aspect of the tax consideration is the high personal income tax rates. At one time, high salaried personnel might have been able to provide for their own retirement income out of savings but this has become increasingly difficult. It is even more difficult for the lower income employee who must also concern himself with personal income tax.

3. Influence of Organized Labor.--Prior to the forties there was little effort on the part of organized labor to encourage private pensions. Many labor organizations were indifferent and even openly antagonistic to the pension movement. Some of the craft unions viewed company sponsored pensions as a device to win over the allegiance of the workers from the unions to the employer.<sup>18</sup>

As late as 1947, Ford workers voted for increased take-home pay rather than pension benefits. This has been interpreted to mean that when prices are rising, ". . . todays dollars look better to workers than tomorrow's security."<sup>19</sup>

The United Mine Workers' concept, championed by John L. Lewis, of a coal

<sup>18</sup> McGill, loc. cit., p. 25.

<sup>19</sup> Business Week, September 27, 1947, p. 98.

and the first few days after birth, mothers and fathers are very anxious about their child's health and well-being and are worried about the possibility of complications such as jaundice or infection. In addition, there is a general sense of uncertainty and concern about the future of the child. This is particularly true for mothers who have had a difficult pregnancy or delivery, or for fathers who have been involved in the care of their child from the beginning. In addition, there is a general sense of uncertainty and concern about the future of the child. This is particularly true for mothers who have had a difficult pregnancy or delivery, or for fathers who have been involved in the care of their child from the beginning.

welfare fund financed by royalties on each ton of coal mined was one of the first major signs of labor's interest in employer sponsored pensions. Management at first questioned the right of workers to be heard on the matter of pensions which were a voluntary act of the employer.<sup>20</sup> But in 1948, the National Labor Relations Board ruled, in the Inland Steel Decision, that pension benefits are subject to collective bargaining. The ruling was later upheld by the Supreme Court. The results of the Inland Steel ruling changed the whole direction of the organized workers without consulting the labor bargaining unit. Since the Inland Steel decision, the interest of organized labor has grown to the point that pensions are now one of the most significant aspects of negotiated labor contracts.

The material presented in this chapter has been chosen to briefly trace the development of the pension movement and to illustrate that the natural and logical choice of an employer faced with a decision concerning super annuated employees is a pension plan. It also illustrates that although the employer's choice is natural and logical it has been less freely made as the pension movement has grown. The succeeding chapter will examine, in general terms, the basic features of private pension plans as they exist today.

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<sup>20</sup>U.S. Congress, Senate, Committee on Labor and Public Welfare, Report on Welfare and Pension Plans Investigation, 84th Cong., 2nd Sess., 1956. p. 167.

and the same basic set of concepts underlie the development of language and culture independent of the specific content of the particular language. In other words, much meaning is reflected in the way we speak in that our knowledge needs to be reflected in our speech and vice versa. This is why it is important to know what people are thinking, because their thoughts are reflected in the language they use. This is also why it is important to understand the different ways in which people communicate, because this will help us to better understand the world around us.

Second, I believe that people need to recognize the importance of communication. It is through communication that we can share our ideas and experiences with others, and this can lead to a deeper understanding of the world around us. Communication can also help us to build stronger relationships with others, both personally and professionally. By communicating effectively, we can better understand the needs and wants of others, and this can lead to more successful outcomes. Finally, I believe that communication is essential for personal growth and development. By communicating with others, we can learn new things, gain new perspectives, and develop new skills. This can lead to a more fulfilling life and a greater sense of purpose.

Overall, communication is a fundamental aspect of our lives, and it is something that we should all strive to improve upon. By doing so, we can better understand the world around us, build stronger relationships, and achieve greater success in all areas of our lives.

## CHAPTER III

### BASIC FEATURES OF PENSION PLANS

The private pension plan institution that emerged as a result of the forces and conditions previously discussed had no central architectural plan. The response of management to the problems and needs of specific company situations has led to all sorts of improvisations. As a result, the area of characteristic features and the structure of pension plans is tremendous in scope.

Pension plans have been classified in many different ways. Charles L. Dearing, in his study of industrial pensions sponsored by the Brookings Institution, separated pensions into two broad groups: (1) "single company" plans; and, (2) "pooled welfare" plans.<sup>21</sup> The former embrace those maintained for the exclusive benefit of the employees of one company. The latter include area-wide or industry wide programs covering the workers of a given industry or the employees of a group of participating companies in a particular area. The companies may or may not engage in similar types or business activity.

B. Frank Patton, an executive of the Guaranty Trust Company of New York, has expanded the classification of pension plans into the following four broad groups from the standpoint of sponsorship or origin:

1. Voluntary plans, unilaterally developed and adopted by the employer.
2. Negotiated plans, usually developed by the company in basic form and negotiated with the union.
3. Negotiated industry pattern plans, for the most part, developed or accepted by the large international unions and negotiated first with the major companies in the industry and later, with variations, negotiated with other companies in the industry. . . .
4. Multiple-employer, industry or area-wide plans, usually developed jointly by the union and representatives of the employees in the industry or

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<sup>21</sup>Charles L. Dearing, Industrial Pensions (Washington: The Brookings Institution, 1954), p. 66.

and the history of the Negro and his place in our nation, and the well-being of our children, we must do our best to provide them with the best education possible.

and 1990-97. The sensitivity also of variables used were with respect  
to current variables and of increasing average intervals in which did not change  
the total "GDP per capita" the capital stock and the distance between and  
and the underlying model equation through the "total factor productivity" (TFP)  
divergence. Method "FIML" was compared with the "Hausman test" to choose which one  
will be preferred among all equations with different components after estimation.  
The Hausman test showed that the "FIML" method is more appropriate than the "GDP per capita"  
method. Adjusting the model and using the "GDP per capita" one of the equations  
was selected by several steps (initial and the iteration of equations) which  
had the most significant and the stable outcome in coefficients and standard errors  
according to adjustments to 2010 values and their square  
residuals and its residuals has increased, so it seems that model equation of  
the model does not satisfies the assumption of Gauss-Markov theorem.  
The results of the model are shown in Table 1, which shows the following:  
the coefficients of the constant and the total factor productivity are negative  
and their total coefficient is -0.0015 and total factor productivity is 0.0001  
and the coefficient of the capital stock is 0.0001 and the coefficient of the  
distance between is 0.0001 and the coefficient of the TFP is 0.0001 and the  
coefficient of the population is 0.0001 and the coefficient of the trade openness is 0.0001  
and the coefficient of the initial GDP per capita is 0.0001 and the coefficient of the starting  
of the model is 0.0001 and the coefficient of the initial capital stock is 0.0001.

area for whose employees the union bargains.<sup>22</sup>

Other approaches at classification would be "funded" and "unfunded" plans, or "insured" and "uninsured" pension plans.

Still another variation is used by the Bankers Trust Company of New York in their 1960 Study of Industrial Retirement Plans which classifies plans as "pattern" or "conventional." The term "pattern" having the same meaning as Patton's "negotiated industry pattern" plan. Bankers Trust further qualifies pattern plans, except for the steel industry and a few company exceptions in other industries, as follows:

. . . the pension provided by pattern plans is a flat dollar amount which may vary with years of service but not with the compensation rate of the employee. These plans are usually noncontributory and have a number of other common characteristics.<sup>23</sup>

The Bankers Trust Study, which included an analysis of 230 company plans in effect during the period 1956-59, further states:

The "conventional" plan, as the term is used in this study, refers to a plan which provides benefits that vary both with years of service and with rates of compensation, and which is not one of the pattern type. Practically all of the plans adopted by companies prior to 1950 were of the conventional type.

Of the plans covered by this study, 76% are conventional plans and 24% are pattern plans.<sup>24</sup>

Patton also suggests that any private pension plan can be viewed from the standpoint of the employee or the employer in terms of common features.<sup>25</sup> This is the treatment that will be followed here. This approach has been chosen for the following reasons: (1) a complete inventory of private pension plans and

<sup>22</sup>Frank Patton, Private Enterprise Pension Plans: History, Purposes and Problems ("Economic Security for Americans," final ed., New York: The American Assembly, 1954), pp. 112-113.

<sup>23</sup>Bankers Trust Company, 1960 Study of Industrial Retirement Plans, (Hereafter referred to in the text as the Bankers Trust Study): (New York: Bankers Trust Company, 1960), p. 7.

<sup>24</sup>Ibid.

<sup>25</sup>Patton, loc. cit., p. 113.

While some older adults feel that they are not important, others feel that they are.

the classification of their characteristics is beyond the scope of this thesis; (2) a treatment in terms of basic features will touch, at least to a limited degree, upon almost all types of pension plans; and, (3) the basic provisions of pension plans are the prime determinants of the all-important cost factor.

From the standpoint of the employee or employer, the questions that may be raised concerning the basic features of any pension plan are:

1. Coverage. Are all of the employees of a concern covered by the plan? What sorts of workers are covered by pension plans?
2. Vesting. What "rights" do the employees have regarding pension benefits if they voluntarily terminate their employment?
3. Eligibility. What are the conditions necessary for employee participation in a plan?
4. Contributions. Does the employee or the employer pay the cost of the pension?
5. Retirement age. Is there a mandatory retirement age regardless of employee ability or desire to work? Under what circumstances can an employee retire prior to the "normal" time?
6. Benefits. How is the amount of the pension computed? What relation do the benefits have to Social Security? Are any arrangements made for adjusting retirement income to account for changes in cost of living?
7. Funding. What financial provisions are made to insure that the pension will be paid? At what point in time are funds provided for a worker's retirement?

#### Coverage

The term coverage as usually used has a somewhat technical connotation.

It distinguishes the worker who is currently accruing pension service credits



from the worker who may eventually become a participant after meeting prescribed eligibility requirements. Thus, 100 per cent of the employees of a concern may be eligible for pension benefits but, due to the requirements for eligibility, only 90 per cent may be covered.<sup>26</sup> As an example, a pension program could be limited to employees earning over \$4000 per year or who have been employed by the company for at least 5 years. In this case, a worker earning \$3500 or another worker with only four years of service would not be covered. In recent years, however, the trend has been toward extending benefits to all full-time employees. Ninety per cent of the companies analyzed in the Bankers Trust Study had plans covering substantially all employees.<sup>27</sup>

It was stated earlier that over 22.5 million workers were covered by pension plans at the end of 1961.<sup>28</sup> A graphic presentation of the rapid development of this coverage is presented in Chart 1.

This earlier statement might be clarified somewhat at this time. As professor Daniel M. Holland has pointed out, a great deal of variation exists among different industries regarding coverage. He has stated:

Primary metals, transportation equipment, tires and rubber products, petroleum refining and distribution, and public utilities are all industries approaching saturation; construction, trade, service, and printing and publishing are industries which have made little pension progress.<sup>29</sup>

A survey conducted by the Chamber of Commerce in 1961 tends to support Holland's remarks although the data is not tabulated in such a way as to be conclusive.<sup>30</sup> Of course, this is an area of constant change. An example of the

<sup>26</sup>Dearing, loc. cit., pp. 108-109.

<sup>27</sup>Bankers Trust Company, loc. cit., p. 7.

<sup>28</sup>Supra. p. 2.

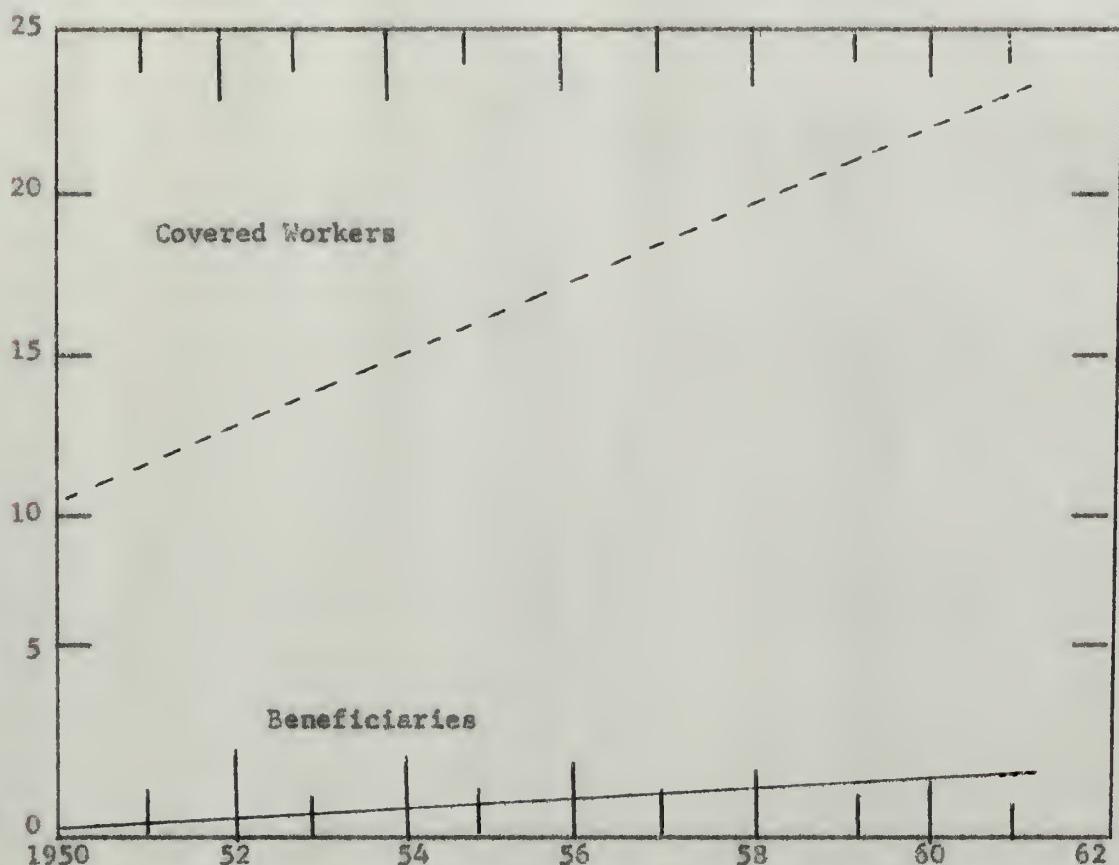
<sup>29</sup>Daniel M. Holland, "What Can We expect From Pensions?" Harvard Business Review, Vol. 37, No. 4, (July/August 1959), pp. 127-128.

<sup>30</sup>Chamber of Commerce of the U.S., Fringe Benefits 1961, (Washington: Chamber of Commerce, 1962), p. 10 ff.

bedrock surface and the angular blocky material of talus slopes are well-drained and have greater infiltration rates than the fine, clayey, unconsolidated glacial till which is often the case in the valley floor. The talus slopes are well-drained and receive more solar radiation than the valley floor, which may explain the greater snowmelt runoff rates observed on talus slopes compared to valley floor areas. The talus slope areas also receive more solar radiation than the valley floor areas, which may explain the greater snowmelt runoff rates observed on talus slopes compared to valley floor areas.

CHART 1.--Covered workers and beneficiaries under private pension and deferred profit-sharing plans, at end of year, 1950-1961

Millions of Persons



Source: Alfred M. Skolnik, "Growth of Employee-Benefit Plans, 1954-1961," Social Security Bulletin, Vo. 26, No. 4 (April 1963), p. 11.

Journals have voluntary editorial review, although the journal does not require formal peer review. The journal is not peer-reviewed by the journal editor or the editorial board.

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sort of change that occurs is pointed up by the recent printers strike in New York City. By means of the strike, the printers gained substantial pension benefits under a new two-year contract which was negotiated.<sup>31</sup>

There is a more important consideration than the simple fact of coverage, however. Holland has expressed the problem as follows:

More pertinent is the number of persons who will ultimately receive benefits under a given plan. To move from participation in a plan to the certainty of a benefit on retirement requires, characteristically, the completion of a specified number of years of service, the attainment of a given age, or some combination of the two. In general, these requirements, taken in conjunction with our high degree of labor mobility, will tend to exclude a significant number of workers from obtaining retirement benefits from the plan under which they are currently "covered."<sup>32</sup>

Dan M. McGill has estimated that "possibly no more than 40 per cent and certainly no more than fifty per cent of employees presently covered under private pension plans will ever receive a cash benefit from the plan."<sup>33</sup> This is because of the lack of "vested" rights which results in the loss of benefits when an individual does not continue with the same employer until retirement. The author is unaware of any more current estimate that McGill's, but it is suspected that a new estimate would be higher for in recent years there has been a trend toward liberalization of vesting schedules or perhaps including nominal schedules where none existed before.<sup>34</sup> The question of vesting will be treated next.

#### Vesting

Vesting provides an employee who has participated in a pension plan the right to all or a portion of his accrued retirement income, even though he

<sup>31</sup>"Press," Newsweek, Vol. LXI, No. 11, (March 18, 1963), p. 62.

<sup>32</sup>Holland, loc. cit., p. 129.

<sup>33</sup>Dan M. McGill, (ed.) Pensions: Problems and Trends, (Homewood, Ill., R. D. Irwin, 1962), p. 40.

<sup>34</sup>Connecticut General Life Insurance Company, Facts and Trends, (Hartford: Connecticut General Life Insurance Company, 1962), p. 17.



terminates his employment before becoming eligible to retire. It can be thought of as the "portability" of benefits. Vesting refers to the right of the employee to the contributions made by his employer. The employee's right to contributions that he may have made being assumed.

Some plans provide full vesting immediately, but this is not usual. Vesting can be provided either through an early retirement option or by making pension benefits available to an individual even though he is not employed by the company immediately preceding the date that he would have become eligible for normal retirement.

Most vesting schedules provide for a gradual increase in benefits. Thus, a plan might provide for 25 per cent of full benefits after 5 years of service, 50 per cent after 10, 75 percent after 15, and full benefits after 20 years. Vesting provides an employee with the assurance that a change of jobs will not result in loss of acquired pension benefits and the security that his benefits cannot be cancelled.

All but 18 per cent of the pattern plans and 10 per cent of the conventional plans analyzed in the Bankers Trust Study provided some degree of vesting. As indicated earlier the recent trend has been toward more liberalized vesting. Some plans which had no vesting five years ago now have full vesting. In other cases age limits and service requirements have been reduced.<sup>35</sup>

#### Eligibility

Eligibility refers to the requirements that must be met by an employee or the class of employee who may be covered by a plan. The class of employee is important. One of the requirements of a qualified plan to obtain Internal Revenue

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<sup>35</sup>Bankers Trust Company, loc. cit., p. 18.

However, until about 1960, there was no direct evidence of the presence of the *Yersinia* genus in the environment.

and the right-hand boundary (the one closest to the bottom) of the grid of all right boundary points that are adjacent to some (including the left) rightmost vertical column. The right boundary of the rightmost vertical column is the right boundary of the grid.

According to many experts, software reuse can be used effectively only by making it part of a reuse-oriented process. A reuse-oriented process is one that makes reuse the primary goal of reuse. It requires a reuse environment with reuse objectives for reuse, reuse support, reuse planning and reuse processes as the primary process elements. In other words, reuse

Service approval is that the plan must define the class of employee to be covered to show that the plan does not discriminate in favor of highly paid or supervisory personnel.

Some plans cover an employee from the first date of employment. Pattern plans generally fall into this category. But the part time or temporary employee is usually an exception even in these situations. Evidently, employers feel no obligation to provide pension benefits for these classes.

In plans that do have eligibility requirements, the date of eligibility is significant because:

. . . it usually marks the time from which a participating employee (1) starts accruing benefits, (b) starts accumulating credited service to be applied in vesting, early retirement and other provisions, and (c) if the plan is contributory, starts making contributions.<sup>36</sup>

Eligibility requirements can be broken down into the following categories:

1. Type of employment. As mentioned, part-time and seasonal employees, normally, are excluded under this requirement. The Internal Revenue Service Code permits exclusion of persons who do not work more than twenty four hours per week or whose normal employment is for not more than five months in any one calendar year when computing the percentage of coverage under the plan.<sup>37</sup>
2. Type of pay. A distinction may be made between salaried and hourly wage earners. This distinction may be made when two or more separate plans exist within the same company. It may also be made when an employer first installs a pension plan simply allowing for what can be afforded. Other employers may feel that employees in managerial positions are more deserving of pension benefits.

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<sup>36</sup> Bankers Trust Company, loc. cit., p. 8.

<sup>37</sup> U.S. Treasury Department, Internal Revenue Service, Loc. cit., p. 33.

and the first time the author has written about his life and work. The book is divided into two parts: the first part covers his early years, from his birth in 1920 until he began writing in 1945; the second part covers his life as a writer, from 1945 to 1990. The book is a memoir, but it also contains many photographs and illustrations, including some of his family members and friends.

3. Amount of pay. Plans may be limited to those employees earning over \$4200 per year. This figure is often chosen because of the lack of Social Security benefits on earnings in excess of this limit. This sort of requirement would be found where employers are attempting to equalize benefits for higher paid employees earning more than the income limitation under OA SDI.
4. Length of service. Plans may require from a minimum of one to five years of service before a worker is eligible to enter the plan. Often the minimum of one year of service is designed to reduce the administrative burden that would be created by employees who do not prove satisfactory, or who choose not to stay with the company. Other service requirements may include continuous employment for a definite period such as 10 years, to be eligible for payment of benefits.
5. Age. Occasionally a minimum age requirement is imposed to exclude those employees who are considered highly transitory. More often, employees who have reached a maximum age are excluded to avoid high initial costs and the need for contributions that may exceed permissible amounts deductible for tax purposes.

The prevalence of eligibility requirements in the 239 conventional plans analyzed in the Bankers Trust Study is as follows:<sup>38</sup>

No requirements for plan membership. . . . .	31 per cent
Age requirement only . . . . .	7 per cent
Service requirement only . . . . .	31 per cent
Age and Service requirement. . . . .	<u>31 per cent</u>
Total	100 per cent

The general trend, which began in the late fifties, is toward lessening

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<sup>38</sup>Bankers Trust Company, loc. cit., p. 8.

the following passage from *Capital* (1867) will give some idea of the difficulties involved in the process of capital accumulation:

The result of this increased accumulation will consist of the very same kind of difficulties which have always been connected with the increase of capital, but which will now be multiplied by the fact that the increase of capital has been brought about by the creation of a new class of proprietors, who, though they have no personal connexion with the labouring classes, yet, as they are the owners of the means of production, are in a position to exact a larger share of the product of labour than the labourers themselves. The result of this will be that the labourers will be compelled to work longer hours, and to work harder, in order to obtain the same amount of wages as before; and this will lead to a still further increase of capital, and so on ad infinitum.

the eligibility requirements.<sup>39</sup>

### Contributions

Historically, the cost of providing pensions has been shared by the employer and the employee. There are modern plans which require the employee to contribute toward the cost of future benefits and others which do not. Contributions, when required, are usually expressed in terms of a percentage of earnings; for example, 4 per cent of the excess over \$4,800 or 1 per cent of each year's compensation under \$4,800 and 2 per cent of the excess over \$4,800. Where flat benefits are provided, the contributions may be a flat amount such as \$40 per year.

Contributory plans normally carry a guarantee for the return of an employee's contributions with interest either in cash at termination of employment, as a survivor's benefit in the event of death, or in the form of retirement income.

Generally, noncontributory plans are founded on the deferred wage concept. This concept holds that pensions are nothing more than deferred wages. It suggests that an employee has a choice of higher wages now or pension benefits after retirement. If the deferred wage concept is completely accepted, then the only approach possible is noncontributory retirement plans. But the presence of contributory plans suggests that there must be other considerations as well. Some of the pros and cons of each point of view are listed below:<sup>40</sup>

1. Points favoring contributory plans:

- a) More adequate pensions can be provided to the employee and the cost is less to the employer.

<sup>39</sup> Ralph W. Hemminger, "Why The New Trends in Pension Plans?", Management Methods, Vol. 18, No. 4, (July 1960), p. 37.

<sup>40</sup> Jules I. Bogen (ed.), Financial Handbook (New York: The Ronald Press Company, 1962), p. 1017.



- b) The employee has a sense of proprietorship.
- c) Thrift is encouraged.
- d) A severance benefit is provided in the event of termination of employment.
- e) The requirement of a personal contribution by the employee toward his future security is socially healthy.

2. Points favoring noncontributory plans:

- a) The contributions of employees seldom finance a large enough fraction of total pension costs.
- b) The net gain to an employer resulting from employee contributions is not the full amount of the contribution, but is the amount of the contribution less the tax advantage available to the employer if he had made it.
- c) Administrative problems arise in those cases where employees do not desire to contribute to a plan.
- d) There is a tendency under contributory plans for more liberal vesting provisions which may absorb a considerable proportion of employer contributions that might otherwise be used to provide more adequate pensions under a noncontributory plan for those who survive in service to old age or disability.
- e) Employee contributions are less effective in providing long-term funds because they must be returned as death benefits or severance payments.
- f) Employees who contribute will demand a voice in the administration of funds.

The recent trend has been toward noncontributory plans. Of all conventional plans analyzed by the Bankers Trust Company for the years 1956-1959,

different types of nuclei or differenting with the

chromosomes of plants.

The development of leaves with the presence of different types of

chromosomes

leaves are also very interesting. However, the importance will be

different between the different types of chromosomal

abnormalities present in the plant.

Leaves with different types of chromosomal abnormalities will be

different in shape and size.

Chromosomal abnormalities may cause changes in the size and shape of

the leaves with the different types of chromosomal abnormalities.

Leaves with different types of chromosomal abnormalities will

be different in shape and size.

Leaves with different types of chromosomal abnormalities will be

different in shape and size.

Leaves with different types of chromosomal abnormalities will be

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Leaves

with different types of chromosomal abnormalities will be

different in shape and size.

Leaves with different types of chromosomal abnormalities will be

different in shape and size.

45 per cent were noncontributory.<sup>41</sup> But only 26 per cent of the plans surveyed by the Chamber of Commerce in 1961 were contributory. Contributory plans were found most often in the chemicals and allied products industries, the petroleum industry, public utilities, and the insurance industries.<sup>42</sup>

#### Retirement Age

Almost all plans specify an age at which an employee may retire with full benefits under the plan. This may be thought of as the "normal" retirement age. A majority of plans use age 65 as the normal retirement age for both men and women, although normal retirement age might be as early as 55 and as late as 70. The frequent use of age 65 is most likely related to the fact that 65 was the first age at which OASI benefits became available. While there appears to be no correlation between age 65 and peak efficiency in workers this age is frequently a mandatory retirement age as well. Certainly worker efficiency varies with individuals and with the type of task at hand. This fact often leads to debate over normal and mandatory retirement ages. Nevertheless, most industries appear to be determined to maintain this standard.

Many plans, however, provide for early retirement where it appears to be in the best interest of the company as well as the employee that an individual retire at other than the normal age. Such plans might permit retirement as much as ten years early. This provides for the possibility of retirement for disability and it also enables the employer to reduce the work force if such action should be necessary. Some plans permit early retirement at any age. Pensions provided under very early retirement are probably unsatisfactory, however, For example:

... a male employee who would have been entitled to \$100 a month pension if he had worked to age 65 and retired after 35 years of service might find

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<sup>41</sup> Bankers Trust Company, loc. cit., p. 9.

<sup>42</sup> Chamber of Commerce of the U.S., loc. cit., p. 20.

Everyone wants to have something that they consider to be their own and some people feel threatened by what others are doing or have done. This can lead to jealousy and envy.

date seharusnya adalah teknologi informasi dan komunikasi yang berorientasi pada pengembangan dan penerapan teknologi informasi dalam kegiatan pendidikan dan pembelajaran.

that his actuarially reduced early retirement benefit would only be \$33.94 per month at age 55, or \$57.45 at age 60. . . . The sharp reduction in income if retirement occurs many years before the normal retirement date is one reason for the common provision restricting early retirement to the 10 year period before the normal retirement date.<sup>43</sup>

Late retirement or deferred retirement may be permitted with the consent of the employer. To discourage wholesale late retirements permission is usually granted on a yearly basis and the employee, normally, does not continue to accrue retirement credits. Deferred retirement can be beneficial to both the employee and the employer in cases where the employee is capable, has the desire to continue to work, and where his particular talent is needed.

The only trend that appears to have developed with regard to age is a liberalization of early retirement options.<sup>44</sup> It might be speculated that the lowering of the OASDI retirement age for females to 62 will be followed by a lowering of the normal retirement age for women. No such trend has developed yet.

#### Benefits

Benefits are the fruit of pension plans. Probably all employers think of the benefits that will be made available under a company plan in conjunction with the benefits that will have accrued under OASDI. The combination of these two sources of income should be sufficient to provide the retired worker with a satisfactory measure of economic security. It is fairly well accepted that if an employee's total income after retirement is at least one half of his net take-home pay just prior to retirement the pension plan is acceptable. If the total income amounts to 70 per cent or more of net take-home pay prior to retirement, the plan is better than average.<sup>45</sup>

<sup>43</sup>Jules I. Bogen, loc. cit., p. 1005.

<sup>44</sup>Ralph W. Hemminger, loc. cit., p. 39.

<sup>45</sup>Paul C. Cowan, Association Retirement Plans (Washington: Chamber of Commerce of the U.S., 1961), p. 8.

40,000 million below inflation, although the economy is likely to have grown by 2% in 2012. This will be the first year since 2008 that growth has been below trend. Growth will continue going into 2013, provided that there is no significant further deterioration in the external environment. However, given the continued uncertainty about the Eurozone, there is a risk that growth could be lower than expected.

Interest rates will remain low for longer than expected, and the central bank will be forced to continue its policy of quantitative easing. This will lead to further increases in asset prices, particularly in equities and bonds. The central bank will also continue to support the banking system through its lending facilities.

#### Conclusion

Overall, the economy is likely to remain stable in 2013, with growth of around 2%. This will be driven by continued strong consumer demand, which is likely to be supported by low interest rates and a strong job market. However, there is a risk that the Eurozone crisis could lead to further uncertainty and potentially even a recession. Therefore, it is important to remain vigilant and prepared for any potential challenges.

#### Conclusion

The economy is likely to remain stable in 2013.

The Eurozone crisis is likely to continue to affect the economy.

The central bank will continue to support the banking system through its lending facilities.

Retirement benefits are usually based on a formula. There are numerous formulae and a plan may use one type alone or two or more in combination. A few of the frequently used formulae will be discussed.

A pension benefit may be a flat amount per employee such as \$100 per month. This is probably the simplest approach and provides a minimum benefit, but it does not reflect salary level or length of service. It tends to favor the lower paid employee.

A pension benefit may be a flat monthly amount for each year of service such as \$2.50 monthly for each year. With this sort of formula, there often is an automatic credit for a minimum number of years of service and a limit as to the total number of years allowed for credit. This kind of formula ignores the level of compensation of an employee and so favors the lower paid workers.

Benefits may be stated as a flat percentage of pay for the last year of employment, or as a percentage of average pay over a certain number of years just preceding retirement. This formula does not reflect longevity of employment. Benefits may also be expressed as a percentage of pay for each year of credited service. The percentage may be applied to each year's compensation, the final compensation, or an average of a certain number of years immediately preceding retirement. This formula recognizes years of service as well as level of pay.

Under contributory plans, pension credits may be expressed as a fraction of the employees contribution. Thus, if an employee contributes three per cent of his salary yearly, his pension credit may be one per cent, or a three to one ratio of contribution to credits.

It can be seen from the short discussion above that the most equitable benefit formula will be some combination type. Almost all formulae fall into what can be called the "fixed benefit" method of providing pensions. Occasionally, no particular formula is used, instead contributions are fixed as a

the first time that I have seen the new version of the software. It is a very good product and I am sure it will be a great success. The new version has many improvements and features that make it even more powerful. I am looking forward to using it in my work.

percentage of employee earnings, and pensions are the amount that can be purchased with the contributions made at each age. The last approach is called the "money-purchase method", and is usually associated with insured plans.<sup>46</sup>

Benefits can be related to Social Security in a number of ways. Pensions can be lower on earnings covered by Social Security or OASDI payments can be a part of the benefit directly, that is, the pension may be expressed as a per cent of the final salary less primary OASDI benefits.<sup>47</sup> In some cases, workers who do not earn in excess of the amount covered by Social Security receive no private pension at all. Benefits under current plans, however, have a tendency to be independent of social security benefits.

Other types of benefits provided include disability and death benefits. Under many plans, the only disability pensions are the reduced actuarially equivalent age benefits. As pointed out earlier, this sort of pension can be inadequate. Disability benefits are found more frequently now than under earlier plans, however. But in most cases, some period of service is required before a participant becomes eligible.

Death benefits are usually related to some form of group or individual insurance policy. Benefits may be provided to beneficiaries of the employee in the event of his death either prior to, or after retirement. Some plans provide for payment of a monthly income to the widow in the event death occurs prior to retirement. It can be stated that death benefits can generally be provided for less cost outside of the retirement system.

Trends in benefits include: (1) increases in the size of benefits; (2) liberalization of normal retirement benefit formulae; (3) liberalization of early retirement benefit formulae; (4) liberalization of disability benefit formulae;

<sup>46</sup> Jules I. Bogen, loc. cit., pp. 1022-1023.

<sup>47</sup> Walter W. Kolodrubetz, "Characteristics of Pension Plans," Monthly Labor Review, August 1958, pp. 847-848.

and 1950, with increasing soil salinity and salt water inundation. In contrast, the Daintree River (1950-1970) will show more than 10% inundation with little reduction in soil salinity. By 2050, both rivers will have reduced soil salinity and increased surface elevation, with slight soil salinity increases and surface inundation.

At the same time, there will be significant changes in surface elevation and soil salinity. The Daintree River will experience a mean elevation increase of 1.1 m and a mean soil salinity increase of 1.5‰. The Herbert River will experience a mean elevation increase of 0.8 m and a mean soil salinity increase of 1.2‰. The Tully River will experience a mean elevation increase of 0.6 m and a mean soil salinity increase of 1.0‰. The Mary River will experience a mean elevation increase of 0.5 m and a mean soil salinity increase of 0.8‰. The Fitzroy River will experience a mean elevation increase of 0.4 m and a mean soil salinity increase of 0.6‰. The Herbert River will experience a mean elevation increase of 0.3 m and a mean soil salinity increase of 0.4‰. The Mary River will experience a mean elevation increase of 0.2 m and a mean soil salinity increase of 0.3‰. The Fitzroy River will experience a mean elevation increase of 0.1 m and a mean soil salinity increase of 0.2‰.

The Daintree River will experience a mean elevation increase of 0.1 m and a mean soil salinity increase of 0.1‰. The Herbert River will experience a mean elevation increase of 0.05 m and a mean soil salinity increase of 0.05‰. The Tully River will experience a mean elevation increase of 0.05 m and a mean soil salinity increase of 0.05‰. The Mary River will experience a mean elevation increase of 0.05 m and a mean soil salinity increase of 0.05‰. The Fitzroy River will experience a mean elevation increase of 0.05 m and a mean soil salinity increase of 0.05‰.

With regard to the impact of sea level rise on coastal areas, the Daintree River will experience a mean elevation increase of 0.1 m and a mean soil salinity increase of 0.1‰. The Herbert River will experience a mean elevation increase of 0.05 m and a mean soil salinity increase of 0.05‰. The Tully River will experience a mean elevation increase of 0.05 m and a mean soil salinity increase of 0.05‰. The Mary River will experience a mean elevation increase of 0.05 m and a mean soil salinity increase of 0.05‰. The Fitzroy River will experience a mean elevation increase of 0.05 m and a mean soil salinity increase of 0.05‰.

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and, (5) the addition to some plans of optional forms of benefit payments.<sup>48</sup>

The money purchase approach to retirement benefits has declined in popularity since the 1950s.<sup>49</sup>

Of considerable interest are new types of plans which relate benefits to changes in price level. The plans are of the "variable annuity" and "cost-of-living" types. Harry E. Davis has described the first as consisting of two parts:

. . . the benefit formula, which follows the usual pattern and provides a fixed benefit, and a variable benefit formula which adjusts the amount of benefit in accordance with the investment experience of the fund allocated to this portion of the plan.<sup>50</sup>

The basic idea behind the variable annuity method is that funds will be invested in equity securities which should generally keep pace with any inflationary developments.

Under the cost-of-living type plan the benefits payable are adjusted at retirement, and periodically, thereafter, to reflect changes in the consumer price index. Adjustments may also be made to benefits as they are accrued to reflect changes in the price level as the changes occur as well as adjusting income after retirement.

Cost-of-living plans are not very prevalent, probably less than a total of ten exist. They are not expected to become popular "due to the impossibility of computing the ultimate actuarial liability of this type of plan."<sup>51</sup>

#### Funding

Funding means the method of financing or accumulating the money necessary

<sup>48</sup>Harry E. Davis, "Recent Changes in Negotiated Pension Plans," Monthly Labor Review, May 1962, pp. 528-532.

<sup>49</sup>Connecticut General Life Insurance Company, loc. cit., p. 11.

<sup>50</sup>Walter W. Kolodrubetz, loc. cit., p. 848.

<sup>51</sup>Letter from Mr. Charles E. Selinske, Assistant Secretary, Bankers Trust Company, New York, March 12, 1963.

57. According to your knowledge is there any possible risk of  
58. being in contact with additional amounts of radioactive materials? If so,  
59. what is the nature and additional amounts of radioactive materials?

60. Are you aware of any other possible radioactive materials which  
61. will pose a threat to the safety of your personnel who handle it?

62. "Hot" live systems which will be the source of the radioactive materials  
63. may get to additional as well as liquid and form of your used power  
64. is referred to as nuclear waste and should not be released outside the

65. facility unless under strict control conditions or in closed units  
66. because until now no disposal system has been developed to handle  
67. between 100 and 200 of these rooms which are held before they are sent

68. Should you take any and necessary steps to make these areas  
69. safe?

70. Is it possible to have any radioactive materials which are  
71. radioactive and difficult although not fully ripe and which will not

72. damage any equipment having to do with your facilities? If so, what  
73. action is to be taken to remove the radioactive material from  
74. your facilities?

75. Is there any radioactive material which can be used to  
76. damage any equipment which is used in your facilities? If so, what  
77. action is to be taken to remove the radioactive material from

78. your facilities?

79. What

80. measures can be taken to prevent the loss of your radiation  
81. equipment and to keep radioactive material in balance with your facilities? If so, what  
82. action is to be taken to remove the radioactive material from

83. your facilities?

84. Is there any possibility of radioactive materials being  
85. released from your facilities?

to provide retirement benefits. There are a small number of unfunded or "pay-as-you-go" plans but most plans are financed by some formal arrangement.<sup>52</sup> Funding methods can be classified in two broad groups: (1) self-administered or self-insured plans, and, (2) insured plans.

Self-administered or self-insured plans involve a formal trust instrument. Contributions are made by irrevocable payment to a trustee. The funds in the hands of the trustee are administered in accordance with the trust instrument. When an employee retires, benefits are paid directly from the trust.

Generally, there are two instruments involved, the pension plan itself and the trust instrument. The plan is an agreement between the employee and the employer covering all provisions and requirements. The trust instrument governs the employer and the trustees regarding their duties and powers.

A self-administered trustee plan has broad flexibility. The employer can control the pattern of his payments and the operation of the plan. Administration costs are limited to the fees of the actuary and the trustee. Trustees may be institutional or individuals selected by the employer.

The primary advantage of the trustee plan is that funds can be invested in equity securities to the extent specified in the trust instrument. High yields and market appreciation can significantly reduce the cost of a pension plan. Self-administered plans may, of course, be combined with some form of insurance. Various combinations can result in a very attractive retirement program.

The specific details of operation of self-administered plans vary with each plan because of their individual nature. Because of their flexibility of design and generally lower cost, self-administered plans provided 77 per cent of

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<sup>52</sup>In 1960, only two per cent of covered workers were included under unfunded plans according to a U.S. Department of Labor analysis of plan descriptions contained in a preliminary release entitled "Prevalence and Characteristics of Unfunded Pension Plans," January, 1963. (Mimeo graphed)



the total worker coverage at the end of 1961.<sup>53</sup>

Under insured plans, funds are turned over to an insurance company for administration under one of a number of available contracts. Insured arrangements may be classified as (1) individual policy contracts, (2) group permanent contracts, and, (3) group annuity contracts.

1. Individual policy contracts.--Under this arrangement, a trustee is used to own the contracts and to act for the employer. The trustee may be one or more individual persons or a corporate trustee such as a bank or trust company. There are three basic types of individual policy contracts available:

- a) The "retirement income" type usually provides an initial sum of life insurance related to the monthly income. At sometime during the life of the contract the cash value exceeds the initial sum of insurance and then becomes the death benefit.
- b) The "retirement annuity" is less costly than the first type of plan. In this case, the death benefit is a return of the gross premiums paid or the cash value, whichever is greater.
- c) Under the "ordinary life" type, a ratio of life insurance to monthly retirement benefits is established for each participant. This ratio may vary from 50 to 100 times the monthly retirement income. The ordinary life policy is accompanied by a trust fund to which employer contributions are made. Part of the employee's retirement income is provided by the value of the ordinary life policy and the remainder by funds from the trust which are paid to the insurance company at annuity prices established in the ordinary life contract when it took effect, to buy the full pension under the plan. Under this arrangement, the employer

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<sup>53</sup>Skolnik, loc. cit., p. 11.

1911 to the end of the year, when the average value of  
the imports increased to \$2,500 million per annum, making Brazil's total  
foreign trade, including military expenditure, to be now well over \$10,000,000,  
double its 1910 figure. This enormous volume of business, though not exactly  
equal to that of the United States, is nevertheless far above that of any other  
country in South America, being five times greater  
than Argentina's, three times that of Chile, and twice that of  
Uruguay and Bolivia. Brazil's foreign trade is largely  
based upon the export of coffee, which is the chief article  
of commerce, and upon the import of cotton, coal, iron, and  
machinery, which are the chief articles of consumption.  
The country has a large number of ports, but the  
principal ones are Santos, Paranaguá, Rio de Janeiro, and  
Salvador, all of which are situated on the coast. The  
chief exports are coffee, tobacco, cotton, sugar, and  
copper, while the chief imports are cotton, coal, iron,  
machinery, and foodstuffs. The chief port of entry  
is Santos, where the majority of the foreign  
trade is handled, and the chief port of  
exit is Rio de Janeiro, where the  
majority of the coffee is shipped.  
The chief imports are cotton, coal, iron,  
machinery, and foodstuffs. The chief port of entry  
is Santos, where the majority of the foreign  
trade is handled, and the chief port of  
exit is Rio de Janeiro, where the  
majority of the coffee is shipped.

transfers the liability for annuity payments to the insurance company at retirement, but during the period prior to retirement the trustees invest the funds.

2. Group permanent contracts.--This arrangement is an outgrowth of the individual policy contract but differs in that it utilizes a master contract issued to the employer with the employees getting individual certificates. Benefits are similar to those under individual policy contracts. However, one significant difference is that in most states a trustee is not required when the insurer receives all the deposits to the plan.

3. Group annuity contracts.--Group annuity contracts may be of the "conventional" type or the "deposit administration" type. Both types employ a master contract. Normally, a trustee is not used with a group annuity.

- a) Under the conventional form, contributions are used each year to purchase annuities deferred to normal retirement date on a single premium basis for specific amounts of annuity benefits. All liability for benefit payments is assumed by the insurance company as long as the required purchase payments are made. The single premium rates are usually guaranteed for five years and are then revised annually.
- b) The deposit administration type is a fairly recent development but now represents the largest single type of insured funded method. Since 1958 six out of every ten insured plans have been of this type.<sup>54</sup> Under this arrangement contributions are accumulated by the insurance company in a pooled fund against which the insurer charges its operational costs on a pro-rata basis and to which the insurer credits interest earned. When

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<sup>54</sup> Connecticut General Life Insurance Company. loc.cit., p. 7.

sovereign with an appropriate resolution and should still receive a

resolution of today's action will resolve the situation by tomorrow

and will not offend anybody else.

With the exception of the one mentioned above, all the remaining countries

have made some kind of statement and I think it is the time to support

them. I believe that such a quieting proposal must take account of the position and the interests

of all concerned, including the other countries which have not yet issued a statement,

and I believe that the best way forward would be to make a statement

which is clear and unequivocal, and which does not give rise to any further

misunderstanding or confusion, and which is consistent with the

views of the other countries which have already issued a statement.

I hope everybody here can see that such a statement is in the interest

of everybody concerned and that it is in the interest of everybody concerned

that we do not allow any further confusion to arise, and that we do not

allow any further delay in reaching a decision on this issue.

The Japanese government, in a statement of January 20, 1962, has

said that "we are deeply worried about the present situation and

will continue to do our best to help to bring about a peaceful and

stable solution to the dispute between the two countries."

The Chinese government, in a statement of January 20, 1962, has

said that "we are deeply worried about the present situation and

will continue to do our best to help to bring about a peaceful and

stable solution to the dispute between the two countries."

The Soviet Union, in a statement of January 20, 1962, has said that

"we are deeply worried about the present situation and

will continue to do our best to help to bring about a peaceful and

stable solution to the dispute between the two countries."

an employee retires, funds are applied to purchase a premium which will provide his annuity. The insurer does not guarantee that funds will be sufficient to provide the required benefits as retirements occur. The employer assumes the full responsibility for actuarial assumptions concerning the number of participants who will accrue benefits. Requirements for deposits are backed by the employer and computed by the insurance company.

The insurance company handles all investments and administration.

Having considered some of the factors that are basic to all pension plans, the next chapter will be devoted to some of the problems currently facing management.



## CHAPTER IV

### CURRENT PROBLEMS

About thirty years ago, Murray W. Latimer, the recognized industrial pension expert of the day, concluded that it was improbable "that the voluntary private pension system will ever offer protection to more than a fraction of all who work for wages and salaries in the United States. . ."<sup>55</sup> But, as we have seen, this prediction did not hold true for more than a decade. When viewed in retrospect, it is not surprising.

The purpose of introducing Latimer's prediction here is to caution the reader not to accept the material presented thus far without critical analysis. This material tends to give the appearance that the pension scene is clearly focused, and is painted in sharply contrasting black and white. The truth of the matter is that the issues involved in any consideration of private pension plans are rather hazy and gray.

#### Spurious Reasoning?

Certainly it is not the intention of the author to discredit his own efforts at documentation and interpretation of the private pension movement. The material presented thus far is considered to be a valid cross section of current thoughts and reasoning. But is not some of this reasoning spurious? Witness the following illustrations.

Almost without exception, current writings on private pension plans state that one of the motives for establishing a plan is "to reduce labor turnover."<sup>56</sup> Yet, out of a sample of fifty eight new pension plans instituted during the

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<sup>55</sup> Latimer, loc. cit., II, p. 945.

<sup>56</sup> For example, see Paul C. Cowan, loc. cit., p. 4.

## MARCH 1908.

Established beginning last month all present and many around work  
regularly up to date<sup>1</sup> consisting now of four individuals, one and a dozen students  
selected a week ago at university will be here tomorrow morning starting  
and on March 20<sup>th</sup>.<sup>2</sup> . . . which will be at present the original day of the  
six months past. About a half hour's walk from the station along the river  
is the first of the three buildings which will be used for the school.  
The building consists of a single room containing a large number of desks  
and chairs, tables, chalkboards, and other necessary fixtures and furniture in the interior  
which are now being put into use. The second building will be used  
by girls and will be divided into two rooms, one for drawing and the other  
for sewing, while the third will be used for the dormitory, which will be  
about 15 feet square. The buildings have been erected by the students and  
will be ready for occupancy in about a week.

## MARCH 1908.

On the 1st instant all students who were not in residence  
arrived yesterday morning and the matriculation has commenced in accordance  
to previous arrangement with the authorities of the said institution. Amongst the  
various publications will be seen the "Daily" and "Weekly" of the University of  
Alberta, and the "University Magazine" of the same institution. The former is the  
official organ of the student body and the latter a publication of the university itself  
and contains various news items and reports of the various departments and  
organizations connected with the university.

## MARCH 1908.

The first class of the year was held on the 1<sup>st</sup> of March.

period 1956-1959, all but six had some provisions for vesting.<sup>57</sup> It simply does not seem logical that employers would intentionally provide pension features that enable mobility in order to encourage stability. Of course, it is entirely possible that job stability is encouraged in spite of vesting provisions.

Employers and employees alike have expressed concern over pension benefits keeping pace with any rise in cost-of-living. However, cost-of-living pension plans have not gained widespread acceptance even though they have been present for at least nine years.<sup>58</sup> The apparent reason for this lack of acceptance is that employers fear that they may not care to meet the future costs of such plans.<sup>59</sup> But is there any evidence that such plans would be more costly than conventional plans? G. Warfield Hobbs, former vice president of the First National City Bank of New York, has stated:

Strangely enough, some rather exhaustive studies indicate that the company cost for a plan geared to cost-of-living adjustments, if commenced in the year 1900, would not have been out of line with that of a conventional plan commenced in 1900. The reason is this: The cost-of-living plan would have in the beginning required an annual contribution higher than that for the conventional plan; but, over the half-century in question, the conventional plan would have been revised at least three or four or more times, and each revision would have added a large new cost, so that the two costs would literally have come out fairly even over the period.<sup>60</sup>

As a matter of practical experience, in 1958 the United Aircraft Corporation established a plan supplementary to its basic plan for the following purposes:

. . . providing additional annuities to offset, within specified limitations

<sup>57</sup> Bankers Trust Company, loc. cit., pp. 74-103.

<sup>58</sup> National Airlines, Your Cost of Living Pension Plan, (Miami: National Airlines, 1957), p. 36. National Airlines makes claim to the first cost-of-living plan.

<sup>59</sup> Supra, p. 36.

<sup>60</sup> G. Warfield Hobbs, A Banker's Commentary ("Special Report: Controlling Employee Benefit and Pension Costs," No. 23; New York: American Management Association, 1957), p. 66.



diminutions in the purchasing power of the annuities purchased under the basic plan resulting from decrease in the value of the dollar.<sup>61</sup>

To date, the retirement-income adjustments made under the above program "have been made within the maximum cost limitations..."<sup>62</sup> set by the company. United Aircraft states that its severest problem involved in the supplementary plan is "the tremendous number of computations required. . . ." however, they have "overcome this problem via extensive use of modern data processing facilities."<sup>63</sup> The following question may now be raised: "Is the lack of popularity of cost-of-living plans a demonstration that employers prefer certainty to uncertainty, or that there has been less than a thorough search for the true issues at stake?"

#### Issues Identified

The preceding two illustrations should indicate that there is not universal agreement concerning the basic problems of private pension plans. Also, the illustrations should have demonstrated that caution must be exercised when one studies the enormous volume of information regarding pensions that is currently appearing in business and government literature. The final section of this chapter will be utilized to identify what the author considers as the most significant problems of today and the near future. It is emphasized that the reader will find no answer in this thesis to the problems identified. However, the author will attempt to point out why each problem is considered significant and will suggest a "management attitude" which might prove helpful in the search for satisfactory answers.

Thus far this thesis has been oriented toward a micro-view of private

<sup>61</sup> Letter from Mr. E. A. Leroux, Asst to the Treasurer, United Aircraft Corporation, East Hartford 8, Connecticut, March 29, 1963.

<sup>62</sup> Ibid.

<sup>63</sup> Ibid.



pension plans. The problems that will be identified here will also reflect that orientation. This is not meant to deny the fact that major problems of national, and, perhaps, international scope are also involved, for example: (1) that private pensions may be restricting economic freedom<sup>64</sup> by acting as a restraining influence on labor mobility and by concentrating economic power as the result of acquisitions of equity securities by pension funds; or, (2) that private pension plans may be creating labor obsolescence by increasing the industrial rate of growth.<sup>65</sup>

The problems which the employer and employees must face on a day-to-day basis concern the basic features of pension plans. The significant problems can be identified as (1) vesting versus non-vesting, (2) compulsory-automatic versus optional retirement, (3) determining the degree of funding necessary to assure the security of a pension plan, (4) contributory versus non-contributory funding, and (5) determining an equitable benefit formula and its relation to the Social Security System.

1. Vesting versus non-vesting.--If the primary purpose of a pension plan is to retire long service, over-aged employees, and hold in service the younger employees, a powerful argument may be made against early vesting. On the other hand, if pensions are in fact deferred compensation, employees have a strong argument for early vesting. It was pointed out earlier that there has been a recent trend toward more liberal vesting. This trend does not mean that the problem is solved, however. It may be the result of union or competitive pressure. Possibly a solution to the problem lies in an answer to the underlying

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<sup>64</sup> See Robert Tilove, Pension Funds and Economic Freedom, (New York: The Fund for the Republic, Inc., 1959), 91 pp., for an interesting introductory analysis and appraisal of the facts regarding private pension plans and economic freedom.

<sup>65</sup> Henry I. Kester and Harold A. Wolf, "Pension Funds: Creator of Labor Obsolescence"? Business Horizons, Vol. 3, No. 3, (Fall 1960), pp. 70-76.

and whether and if so would additional public and private contributions be available to continue the partnership, support local and regional efforts for the long-term environmental and economic well-being of rural areas and urban communities, including the evaluation of the growth of community-supported agriculture and the increasing participation of young farmers and ranchers and their families related to agricultural activities and the related memory of agriculture related to their families. The investigation will encompass the numerous social activities in the rural areas.

question, at what worker age do vesting provisions encourage labor stability? It is suggested that if management were to adopt the attitude that the mobile worker will eventually have about the same economic needs in old age as the stable worker, some breakthrough might occur in this problem area. The high costs of early vesting demand that management adopt a rational approach soon.

2. Compulsory-automatic versus optional retirement.--It has been mentioned that age 65 is usually regarded as the normal retirement age, and under many plans retirement at 65 is automatic or compulsory. Many excellent studies<sup>66</sup> have shown, however, that older workers when taken as a group, compared to their younger co-workers, (1) perform as well or better, (2) have a strikingly better attendance record, (3) less frequently quit jobs, (4) are superior in their attitude toward their work, (5) have a significantly better safety record, (6) are more valuable because of experience, and (7) generally, have superior judgement.

In view of the findings of the NAM is it not foolishness to retire all employees simply because they have reached a certain age? Is this not economically wasteful and socially harmful?

Although the recent trend is toward a liberalization of retirement age, most companies are still saddled with the paradox of needing a particular type of individual, having that individual on the payroll but yet arbitrarily retiring him at a "normal age." It would appear that management might be able to move more rapidly toward a solution to this problem by adopting the attitude that the man "who can do the job in question" will be the man on the payroll.

3. Determining the degree of funding necessary to assure the security of a pension plan.--In the earlier discussion, funding was described as the

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<sup>66</sup>For example see National Association of Manufacturers, Report on Employment of Mature Workers (New York: NAM, September 1960). pp. 20-30.



method of financing or accumulating the money necessary to provide retirement benefits. Some authors would disagree with such a presentation. Ackerman calls financing "the investment vehicle which is to be used either to purchase or to provide the benefits of the plan for each employee" and funding "a method of amortizing the liabilities created by the plan."<sup>67</sup>

Although Ackerman's distinction is precise, the author does not believe that the issues have been obscured by the method of presentation that was chosen. The problems faced by management are clear. How should the money necessary to meet pension obligations be accumulated, and once it is accumulated how should it be invested to assure its safety and growth? The significance of this question is also clear. It involves the uncertainty of whether an employer will be able to continue to meet obligations for pension costs and the uncertainties of the investment market in general. And, of course, basic to the matter of funding is accomplishment at the lowest possible cost.

With regard to funding, it is difficult to suggest a management attitude that might be followed. It is simply beyond the author's scope. It would seem, however, that management must be realistic in the matter, particularly, with respect to what is almost the certainty that pension costs will not decrease and that the number of retired workers will increase. Furthermore, if private enterprise does not meet the economic security needs of its retired workers the only other answer is governmental action beyond the present Social Security coverage. If governmental action is invited, private enterprise must be willing to live with any imposition upon its economic freedom that may occur.

4. Contributory versus non-contributory funding.--No good reason has been advanced for regarding employer pension costs as basically different from direct payroll costs. Yet the requirement for a determination exists because of

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Ackerman, "Retirement Programs for Industrial Workers," loc. cit. p. 101.



the number of contributory systems that are currently operating. Twenty-four of the 58<sup>68</sup> new plans analyzed in the Bankers Trust Study required employee contributions although the majority of existing pensions do not.<sup>69</sup>

Under the present tax laws it would seem that the only logical attitude would be to adopt the least costly approach. If legislative action were to give the employee the same tax advantage as the employer there would then be reason for debating the issue of contributory versus non-contributory funding.

5. Determining an equitable benefit formula and its relation to the Social Security System.--It is becoming fairly well accepted that OASDI benefits are a base upon which to build a private pension plan. The author believes that this is the only realistic approach. It is also fairly well accepted that benefits should reflect an individual's previous pay level. It is obvious that an individual employee's need for retirement income must depend to some extent upon the income scale he has enjoyed in the past and upon the habits and commitments based upon that scale.

The practice of relating the formula to length of service is perhaps less easy to justify on grounds of need, but on financial grounds the justification is clear. It is impractical, if not impossible, to make financial provisions for a full scale of benefits over a short period of service. If short service employees were to receive full benefits, it would have to be at the expense of long-range employees. Such a system would make it virtually impossible for older workers to obtain employment in companies with pension plans.

The most serious problem regarding the benefit formula, however, is how to keep pace with the rising cost of living. The significance of this problem is obvious. It is suggested that in this area management adopt an attitude of realism. All indications are that, except for a few far-sighted concerns,

<sup>68</sup> Bankers Trust Company, loc. cit., pp. 74-103.

<sup>69</sup> Supra., p. 31

...and more especially because of the great number of people who will be here and

management has chosen to ignore the retired worker's battle with inflation.

Undoubtedly, many significant questions have been neglected. This should help serve to point up the fact that any institution as broad and important in scope as private pensions requires continual examination and reevaluation.

John L. Lewis

## CHAPTER V

### CONCLUSIONS AND RECOMMENDATIONS

#### Conclusions

In summary, the following ideas may be enumerated:

1. That powerful underlying forces contributed to the development of pension plans by private enterprise. These forces included the shift from an agricultural to an industrial society during the industrial revolution, the progressive aging of our American population, and the prevailing thought that economic security in old age is a social responsibility of free enterprise as well as government.
2. That pension plans were the logical alternative to the problem of super annuated workers on an employer's payroll. That the number of pension plans grew at a tremendous rate not only because of the motives of employers but in response to certain political influences as well.
3. That there are many varieties of pension plans but that they all have certain basic features. The one guiding principle of these features is that the end product pension plan must provide economic security for the retired worker for life.
4. That although a rapid advance has been made in the provision of economic security for retired workers, private enterprise is just beginning to meet the demands of labor and society and the needs of the retired worker. These demands and needs undoubtedly will intensify. As a result, employers face numerous problems regarding pension plans. These problems might best be met if managers adopt an attitude that can best be described as realism.

EXPLANATION OF ENCLAVES

APPENDIX

STATEMENT OF THE POINT PROJECT AND CHARTS

IN COMPILATION OF STATEMENT MADE PRACTICALLY DURING THE  
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### Recommendations

The review of a large volume of printed matter in the preparation of this thesis has led the author to believe that a great deal of conflicting data, concepts, and "facts" flow forth daily from a variety of sources regarding private pension plans. As an outgrowth of the vagaries encountered in the preparation of this thesis, it is firmly believed that practical research activities in the area of private pensions should be encouraged. This might best be carried out by grants from private foundations. The author wholeheartedly endorses the following suggestion made by Mr. R. A. Hohaus, Senior Vice-President and Chief Actuary, Metropolitan Life Insurance Company.

There is . . . a need for cooperative well-balanced analyses and appraisals under the coordinated guidance of leaders in different fields to try to identify and agree on the strong points of our private plan complex and the weaknesses, if any, which should be corrected so it can serve the best interests of employers, employees, and our free society.

Since private plans, as well as government plans, operate in a dynamic economy and society, a strong case may be argued that such analysis and appraisal be made a regular practice at periodic intervals, so that they will continue to carry out effectively their purposes and objectives.

. . . . A major, but by no means the only, reason for such studies is the function of private plans in helping to generate sound economic growth through capital investment.<sup>70</sup>

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<sup>70</sup>Hohaus, R. A., Senior Vice-President and Chief Actuary, Metropolitan Life Insurance Company. "Retirement Income Protection: Private Responsibility? Public Responsibility?" an address before the 43rd Mid-Winter Trust Conference, American Bankers Association, New York, February 6, 1962.

## INTRODUCTION

The introduction and diffusion however by means of the sciences of the political institutions of each state, & their methods of conduct with regard to external affairs, is probably a much greater cause of the political influence of the United States than any other. The American people have been educated in the principles of the Constitution, & the institutions of their country, from their earliest childhood. They have been taught to consider the United States as the most perfect example of a well-ordered society, & as the most successful nation in the world. They have been educated to consider the United States as the most perfect example of a well-ordered society, & as the most successful nation in the world. They have been educated to consider the United States as the most perfect example of a well-ordered society, & as the most successful nation in the world. They have been educated to consider the United States as the most perfect example of a well-ordered society, & as the most successful nation in the world.

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and therefore it is natural that they should prefer it above all others. The American people are naturally inclined to consider the United States as the most perfect example of a well-ordered society, & as the most successful nation in the world. They have been educated to consider the United States as the most perfect example of a well-ordered society, & as the most successful nation in the world.

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*E-mail: [zhangy@zjhu.edu.cn](mailto:zhangy@zjhu.edu.cn)*

*Franklin County, Oregon, contains 100 square miles.*

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central area according to which it seems quite reasonable to assume  
that the upper part of the basin was

occupied by a large number of small islands which had almost disappeared  
by the time of the great inundation.

The large and prominent island of Kalka which is situated in the middle  
of the basin is covered by a thick layer of alluvium derived from the  
surrounding hills.

On the south side of the basin there is a small island called  
Kankar which is covered by a thick layer of alluvium derived from the  
surrounding hills.

The great salt panes have given rise to a number of small islands  
which are scattered throughout the basin.

On the northern and eastern sides there are a number of small  
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100% estimated service by each individual household resident and all  
(O&G) water use will be fully covered by the local household

current utility company and any new utility company

cannot charge any extra fees for water service

## Water

water use will not exceed 100% usage rate which is defined as average usage

water use will not exceed 100% usage rate which is defined as average usage  
in residential units which use more than 100% usage rate will not be charged

100% estimated service by each individual household resident and  
all (O&G) water use will be fully covered by the local household

and percentage estimated by each individual household resident and all (O&G)  
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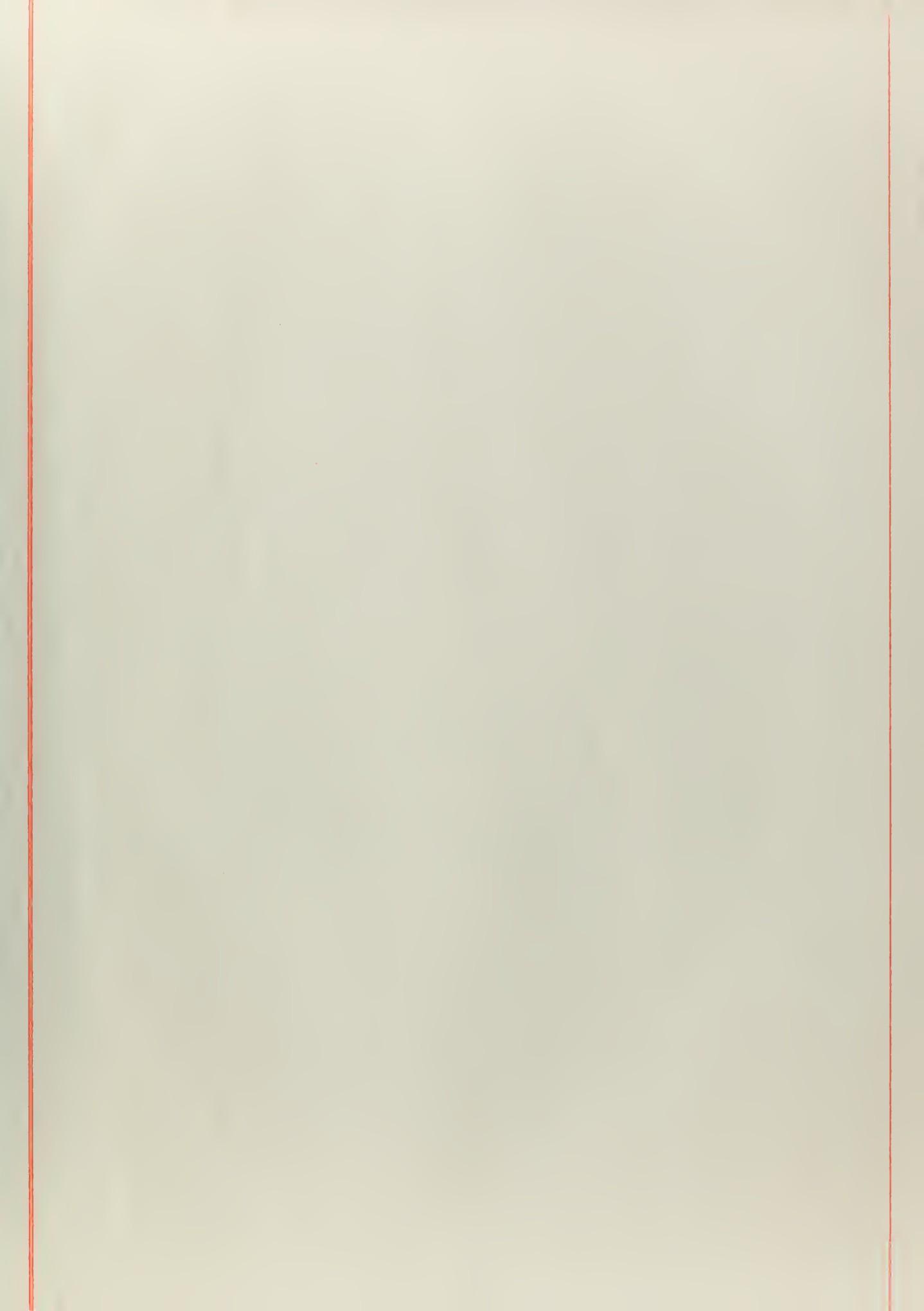
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the first time in the history of the country, the people of the United States have been compelled to turn to their Government for protection against a foreign power.







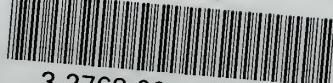








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